ANNUAL REPORT

FOR THE YEAR ENDED APRIL 30, 1969

BECKER'S

HIGHLIGHTS OF THE YEAR

	Year ended April 30		Percentage change
	1969	1968	
Sales	$42,581,264	$34,511,342	+ 23.4
Operating earnings	2,708,481	2,189,374	+ 23.7
Net earnings	916,597	796,573	+ 15.1
Earnings per share	.51	.45	+ 13.3
Long term debt	2,399,584	954,835	
Shareholders' equity	4,383,481	3,275,963	
Shares outstanding			
– Class A	5,675	5,675	
– Class B	1,176,790	1,162,950	
– Common	540,750	540,750	
Number of stores	251	201	
Number of employees	1,120	948	

DIRECTORS REPORT

FRANK A. BAZOS
Chairman of the Board

ROBERT W. LOWE
President

TO THE SHAREHOLDERS:

We are pleased to submit herewith the Annual Report of The Becker Milk Company Limited for the year ended April 30, 1969.

During the year our target of 50 additional stores was reached and at the end of the year your Company operated 251 stores. This represents an increase of 25% in the number of outlets. The sales for the year of $42,581,264 also showed a substantial increase of $8,069,922 or 23% over the previous year.

This past year has been one of intensive competition in the dairy and convenience store field as well as in food retailing generally. The result of the first has been a relatively heavy concentration of convenience stores in some areas. This is reflected in the fact that our overall sales increase was somewhat less than the increase in the number of outlets on a percentage basis. It is interesting to note that despite this competition for good store locations, we were able to keep the relationship between sales increase and increase in the number of outlets approximately the same as in the previous year. In 1968 our sales increased 27% with a 29% increase in the number of stores.

The second condition, intensive competition in food retailing, appears to have developed from the combination of a consumer "revolution" protesting high food prices and the declining profit margins of the retailers due to ever increasing costs. For many food retailers this has resulted in a vicious circle. Merchandising methods are apparently completely changed and pricing policies for many items go beyond the borders of loss leadership. Such quests for higher sales volume, if practised by many of the competing members in an industry, has been known to result in insignificant sales increases combined with considerable decreases in net profits.

Becker's policy has been to give our customers the lowest possible price consistent with the high quality of our products. We are proud that we still have been able to live up to this policy. We have had to meet the competition in some instances by reductions of our normal profit margins but we have not offered loss leaders as an inducement to our customers.

We feel that this policy has been justified in view of the fact that our net profit has again increased, even if it has not kept pace with our sales increase of 23%. In the circumstances the net profit increase of $120,024 or 15% and the earnings per share of 51 cents is most gratifying.

During the year capital expenditures were $2,244,977 for new stores and for additional facilities at the Plant and Head Office. The acquisition of Acton Jersey Dairy in Acton and of Lifloc Dairy in Peterborough also was significant by opening new milk marketing areas for us. We are now in a position to expand into these two new lucrative marketing areas as well as to continue expansion in Metropolitan Toronto area on a selective basis.

Our Store Manager training programme was stepped up during the year and we now have a completely equipped training store in operation at our Head Office. This has enabled us to improve our manager selection and to place better trained managers in our new outlets. We have also been fortunate in obtaining excellent new managerial personnel for the areas of administration and operations.

Our organization has been strengthened in physical facilities, in personnel and by the availability of funds through the $4 million debenture financing arrangement with The Royal Bank of Canada. With this in mind and with the knowledge that we can count on the continued dedicated effort of our employees and on the support of our suppliers, we are looking forward to our new year with every confidence. We fully realise that the present pressures of competition and of increasing costs will remain with us, but we are fully prepared to accept the challenge.

Over the years we have given our customers shopping convenience combined with low prices and high quality. To earn our customer loyalty and our success, we will undertake to continue to provide price leadership for milk wherever we operate. We urge you the shareholders, if you live in our "Becker Country", to patronize your local Becker store and to introduce the advantages of shopping at Beckers to your friends.

Sincerely,

Frank A. Bagg

Chairman of the Board

R W Law

President

FINANCIAL STATEMENTS

THE BECKER MILK COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED APRIL 30, 1969

	1969	1968
	$	$
Sales	42,581,264	34,511,342
Cost of goods sold	31,256,032	25,730,458
Gross profit	11,325,232	8,780,884
Operating expenses	8,616,751	6,591,510
Earnings before depreciation and amortization, interest charges and taxes on income	2,708,481	2,189,374
Depreciation and amortization (Note 11)	693,962	483,576
Interest charges	80,813	51,562
Taxes on income (Note 11)	1,025,431	857,663
Earnings from operations	908,275	796,573
Gain on sale of investment and fixed assets	8,322	—
Net earnings for the year	916,597	796,573

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED APRIL 30, 1969

	1969	1968
	$	$
Balance beginning of year	2,089,902	1,327,379
Net earnings for the year	916,597	796,573
	3,006,499	2,123,952
Dividends paid on class A shares (Note 10)	34,050	34,050
Balance end of year	2,972,449	2,089,902

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED APRIL 30, 1969

	1969	1968
	$	$
Source of Funds		
Operations		
Net earnings for the year	916,597	796,573
Charges not requiring an outlay of funds:		
Depreciation and amortization	693,962	483,576
Deferred income taxes	100,111	62,737
	1,710,670	1,342,886
Other		
Issue of series C debentures	2,000,000	—
Issue of class B shares	224,971	5,600
Manager bond deposits	68,675	52,625
Increase in mortgages payable — net	12,974	58,910
Sale of shares in and/or reduction in advance to associated company	50,050	9,985
Decrease in federal refundable tax	17,924	26,076
Decrease in financing expenses	—	23,578
	4,085,264	1,519,660
Use of funds		
Purchase of fixed assets (net of disposals) and progress draw payments	2,084,502	2,161,760
Dividends paid on class A shares	34,050	34,050
Payment of long-term equipment instalments	1,900	9,508
Increase in rent deposits and deferred finance charges	2,037	65
Repayment of 6½% First mortgage bonds	635,000	90,000
Payment in respect of retail sales tax assessment	163,375	—
Sundry	29,466	—
	2,950,330	2,295,383
Increase (decrease) in working capital	1,134,934	(775,723)
Working capital at end of year	831,358	(303,576)
Working capital at beginning of year	(303,576)	472,147
Increase (decrease) in working capital	1,134,934	(775,723)

CONSOLIDATED

AS AT A

(With Compara

ASSETS

	1969 $	1968 $
Current Assets		
Cash	39,403	177,100
Store managers' accounts and sundry accounts receivable	177,954	175,389
Advances to employees	11,506	1,108
Inventories —		
Plant, at lower of cost or net realizable value	1,119,800	358,254
Stores, at lower of cost or net realizable value less normal profit margin	2,210,933	1,628,521
Prepaid expenses and deposits	231,980	173,984
Federal refundable tax	14,427	24,000
Chattel mortgages receivable	4,959	—
	3,810,962	2,538,356
Investment in Associated Company (Note 2)		
Shares — at cost	—	50,050
Advances	28,518	28,518
	28,518	78,568
Fixed Assets (Note 3)		
Assets — at cost	8,427,028	6,225,719
Less: Accumulated depreciation and amortization	2,441,540	1,791,246
	5,985,488	4,434,473
Other Assets		
Rent deposits and deferred finance charges less amortization	13,530	11,493
Federal refundable tax — due after one year	—	17,924
Progress draws on building construction (Note 4)	99,553	260,028
Payment in respect of retail sales tax assessment (Note 5)	163,375	—
Sundry	29,466	—
	305,924	289,445
	10,130,892	7,340,842

Approved on behalf of the Board:

Frank A. Baggs

Director

R W Lowe

Director

The accompanying notes are an integral part of the consolidated financial statements.

BALANCE SHEET

L 30, 1969

Figures for 1968)

LIABILITIES

	1969	1968
	$	$
Current Liabilities		
Accounts payable and accrued expenses	2,512,586	2,362,088
Equipment instalments	1,898	9,700
Income and other taxes payable	459,088	354,190
6½% First mortgage bonds	—	90,000
Mortgages payable	6,032	25,954
	2,979,604	2,841,932
Long-Term Liabilities		
Managers' bond deposits	264,700	196,025
Equipment instalments — due after one year	—	1,900
6½% First mortgage bonds	—	635,000
6% Series B debentures (Note 6)	50,000	50,000
Series C debentures (Note 7)	2,000,000	—
Sundry mortgages — due after one year (Note 8)	84,884	71,910
	2,399,584	954,835
Deferred income taxes (Note 11)	368,223	268,112

SHAREHOLDERS' EQUITY

Share Capital

Authorized —

8,000 — 6% cumulative class A preference shares with a par value of $100 each, redeemable at par

2,459,250 — non-voting, non-cumulative, participating class B preference shares without par value

640,750 — common shares without par value

	1969	1968
Issued and Fully Paid — (Note 9)		
5,675 — class A shares (last year 5,675)	567,500	567,500
1,176,790 — class B shares (last year 1,162,950)	843,244	618,273
540,750 — common shares (last year 540,750)	288	288
	1,411,032	1,186,061
Retained earnings (Note 10)	2,972,449	2,089,902
	4,383,481	3,275,963
	10,130,892	7,340,842

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AT APRIL 30, 1969

1. BASIS OF CONSOLIDATION

The accounts of the two subsidiary companies have been included in the consolidation from the date of their acquisition.

2. INVESTMENT IN ASSOCIATED COMPANY

Euclid Securities Limited has guaranteed the repayment to the Company of amounts due from the associated company. During the year the Company sold its shares in the associated company for an amount of $56,000.

3. FIXED ASSETS

Fixed assets are classified as follows:

	Cost	Accumulated Depreciation and Amortization	Net Book Value
	$	$	$
Land	273,469	—	273,469
Buildings	1,609,357	107,191	1,502,166
Equipment — plant	932,569	416,013	516,556
— stores	4,004,322	1,377,616	2,626,706
— office	102,239	34,153	68,086
Trucks and automobiles	582,855	275,471	307,384
Leasehold improvements	922,217	231,096	691,121
	8,427,028	2,441,540	5,985,488

4. PROGRESS DRAWS ON BUILDING CONTRUCTION

A service building is presently under construction which will cost, including equipment, approximately $110,000 of which $99,553 has already been paid and included in the accounts as at April 30, 1969.

5. PAYMENT IN RESPECT OF RETAIL SALES TAX ASSESSMENT

The Company has paid the assessment of $163,375 covering the 3½ years ended April 30, 1968, as levied by the Ontario Retail Sales Tax Department. The notice of objection to the assessment has been filed and if unsuccessful, the retained earnings of the Company would be reduced by approximately $76,200.

6. 6% SERIES B DEBENTURES

These debentures are secured by a floating charge on the assets of the Company, which charge has been postponed in favour of the Series C Debentures and the debentures referred to in Note 12.

7. SERIES C DEBENTURES

The authorized maximum loan from the Company's bankers under these debentures is $4,000,000. Draw-downs may be made in minimum amounts of $500,000 to December 31, 1971. Interest on the amounts outstanding will be at 1% above the bank's prime lending rate and is payable quarter yearly. Repayment of the principal is to commence not later than December 31, 1974, in annual principal instalments of not less than 10% of total loans then outstanding. The loan may be prepaid at any time without notice or bonus. The Company's bankers will receive warrants to purchase class B shares at the rate of a warrant to purchase 2,000 shares per $500,000 loan so drawn down in excess of $1,000,000 until warrants to purchase an additional 12,000 shares have been issued. The price per share shall be 10% above the closing bid quotation on the day previous to the draw-down with respect to which the warrants were issued and may be exercisable for a period of five years from the date of the draw-downs. At this date warrants have been issued for 4,000 shares. These debentures are secured by a charge on all assets presently owned and hereafter acquired. Dividends may be paid on any class of shares provided capital and retained earnings exceed $3,250,000.

8. SUNDRY MORTGAGES

This amount covers 5 mortgages on properties purchased for retail store locations and additional warehouse and/or production facilities. The principal amounts mature up to 1978 with various interest rates, not exceeding 9% per annum.

9. SHARE CAPITAL

During the year 13,840 non-voting class B shares were issued for an aggregate sum of $224,971. The Company's bankers purchased 13,000 of these shares at $16.375 per share and employees purchased 840 shares at $14.40 per share.

10. DIVIDENDS

On December 31, 1968 the Company declared a dividend of $6 per share on its class A shares, being the dividend accruing from January 1, 1968 to December 31, 1968. This dividend, totalling $34,050, was paid on January 2, 1969.

11. DEPRECIATION

Depreciation has been calculated in accordance with the Company's established policy of amortizing the depreciable properties over the estimated useful life, with the exception of trucks and automobiles which have been depreciated at maximum normal rates permitted by regulation under the Canada Income Tax Act. The Company has continued to claim maximum allowances for income tax purposes.

12. FLOATING CHARGE DEBENTURES

$450,000 principal amount of debentures of the Company, due on demand and secured by a floating charge, are lodged with the Company's bankers as collateral security for loans outstanding from time to time.

13. REMUNERATION OF DIRECTORS AND OFFICERS

Expenses include $88,449 (last year $86,510) for remuneration of officers. There were no fees paid to directors during the year.

14. LEASES

The minimum annual rentals payable (excluding insurance, property taxes and certain other occupancy charges) under the lease obligations for store locations amount to $967,871.

The total minimum rental liability under leases (excluding insurance, property taxes and certain other occupancy charges) to the date of expiry or option, whichever occurs first, amounts to $6,869,577.

15. EXPROPRIATION

The Company was awarded compensation in the amount of $101,560 relating to the expropriation of a Company store by the Municipality of Metropolitan Toronto. This award has been appealed by the Municipality of Metropolitan Toronto. The Company has made no provision in the accounts regarding compensation in respect of this expropriation.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Becker Milk Company Limited and its subsidiary companies as at April 30, 1969, and the consolidated statements of earnings, retained earnings and source and use of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings, retained earnings and source and use of funds presents fairly the financial position of The Becker Milk Company Limited and its subsidiary companies as at April 30, 1969, and the results of its operations for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Langlois, Hauck & Company

Chartered Accountants.

July 3, 1969

PROGRESS DURING THE PAST TEN YEARS

YEAR ENDED APRIL 30

	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960
	$	$	$	$	$	$	$	$	$	$
Sales	42,581,264	34,511,342	27,150,658	19,966,503	14,917,766	10,621,311	6,837,097	4,533,586	2,418,502	1,394,460
Earnings before depreciation and amortization, interest and taxes on income	2,716,803	2,189,374	1,707,740	1,039,740	549,167	392,750	292,841	202,107	123,366	18,842
Depreciation and amortization (Note 1)	693,962	483,576	395,838	315,746	251,170	195,140	124,799	89,196	53,619	32,125
Interest	80,813	51,562	30,038	34,583	21,478	14,014	5,910	3,448	3,100	2,716
Taxes on income	1,025,431	857,663	656,419	352,646	137,747	92,850	77,718	47,651	5,203	—
Net earnings (loss)	916,597	796,573	625,445	336,765	138,772	90,746	84,414	61,812	61,444	(15,999)
Shareholders' equity (Note 2)	3,815,981	2,708,463	1,940,340	728,552	391,197	252,400	161,403	76,819	15,007	—
Shares outstanding (Note 2)	1,717,540	1,703,700	1,703,000	1,600,750	1,589,250	1,584,250	1,534,000	1,500,000	1,500,000	1,500,000
Net earnings per class B and common share (Note 3)	.51	.45	.35	.21	.09	.06	.06	.04	.04	—
No. of stores (at end of fiscal year)	251	201	156	127	101	81	51	37	27	19
Net fixed asset additions	2,244,977	1,973,365	887,833	655,063	763,908	597,888	819,880	256,598	135,142	148,307

Notes: (1) Figures for all years have been adjusted to reflect current Company policy on depreciation and amortization.

(2) Combined Class "B" and Common.

(3) Figures for all years have been adjusted for the ten-for-one stock split of February 28, 1967. Net earnings per share have been adjusted to allow for the current year's Class "A" preference dividend. Dividends on Class "A" shares from January 1, 1969 to April 30, 1969 amounting to $11,350 have not been declared and or allowed in computing the shareholders' equity.

OPERATING REVIEW

SALES AND EARNINGS

Sales for the year ended April 30, 1969 were $42,581,264 compared to $34,511,342 in 1968. Despite the extremely competitive period in the food industry we were still able to keep our milk price leadership in the ever growing "Becker Country" and yet show a modest increase in our gross profit margins.

We have also been exposed to our present day pressures of increasing costs but in this respect our end results were excellent as we were again able to increase our net profits.

The net profit from operations for the year was $908,275 or an increase of 14% over the net profit of $796,573 in the previous year. We might point out that the corresponding figure of profit before taxes showed an increase of 17%.

Also included in the results for the year is a charge of $23,500 to provide for a loss on disposal in 1969/1970 fiscal year of returnable containers which will become obsolete to us after a change to carton containers in quarts and half pints.

PROGRESS AT THE BECKER'S STORES

Last year the expansion of our stores continued and as planned 50 additional outlets were added and 251 stores were in operation at the end of the year. Many of the older stores were improved and modernized. Capital expenditures for new stores and for renovation of existing stores amounted to $1.2 million, close to the estimated figure for the year of $1.3 million.

The average sales per store have held at a very satisfactory figure, especially for the more established stores. It appears that some of the new outlets have been slower to develop but this was expected in view of the competition for store locations and the scarcity of good locations in some areas.

The acquisition of the two dairies outside our previous milk marketing areas came too late in the year to obtain any benefits during the past year and only two stores were opened in the new areas; one in Stouffville and one in Kitchener. Preparations for additional stores were well underway subsequent to the year end and more stores have been opened. We expect to take full advantage of our expanded area during the coming year.

PROGRESS IN PROCESSING AND DISTRIBUTION FACILITIES

At our plant the warehousing facilities for the distribution of cigarettes and tobacco were completed during the year. Additional office facilities were also completed amounting to an increase of 75% in floor space.

Keeping in mind our requirements for future expansion, we were fortunate to be able to purchase a parcel of 2½ acres of land adjoining to our existing property on Warden Avenue. This addition has increased the acreage at our Head Office and Plant to nearly 12 acres.

The newly acquired property also includes a building of 12,000 sq. ft. and is suitable for our expansion. At the present time this building is leased back to its previous owner.

During the year the Company took over the trucks that had previously been owned by a company which provided part of the delivery service for us. Your company now owns the complete fleet of trucks servicing Becker's stores from our Plant. There are over 50 vehicles ranging from light delivery trucks to tractor trailer units.

The make-up of our fleet has also had a considerable change during the year and for a more efficient and economical service, modern stainless steel refrigerated trailers are now used for milk delivery wherever possible.

To provide better service and preventive maintenance for our fleet we have built a 5,000 sq. ft. service garage at Warden Avenue. This garage is now nearly completed and we are looking forward to putting it into service very shortly.

At our plant we had installed equipment to give us an increase in production facilities during the 1967/68 year, planned to meet the demands of increased production for some time. During this last year therefore no large changes were made to the facilities, but improvements were many, including the installation of a "bottle inspector" in our production line. This piece of equipment, one of the first of its kind in Canada, eliminates the possibility of human error in checking each plastic jug before being filled. This has eliminated for us the minor headache of the Dairy industry, which was brought about by the introduction of the otherwise most efficient returnable opaque milk jug. It also assures us that we can retain the complete acceptance of the buying public of our high quality standards.

At the end of the year we also made preparations for the introduction of a non-returnable plastic coated carton for our quart and half pint sizes. These containers were successfully introduced in May 1969.

This change enables us to reach an even wider area of the milk market with our expanded choice of containers. The mainstay of our milk business is still the three quart returnable plastic jug. It is the most efficient and economical container for milk available and this fact is reflected in the public acceptance of this container. Our very large volume of production of this container and our production and distribution efficiency have placed us into the position of milk price leadership in our area and yet enabled us to market milk profitably.

For the convenience, rather than economy minded segment of the market, we will now have a non-returnable container available — and this still at a most competitive price.

We might also mention that this new container with its own production line, has automatically increased our production capacity of our present facilities for the returnable containers.

Board of Directors

Frank A. Bazos	Chairman of the Board The Becker Milk Co. Ltd.
Robert W. Lowe	President The Becker Milk Co. Ltd.
Robert Bazos	President Perrette Dairy Limited
William H. Zimmerman	Queen's Counsel
E. S. Miles	Investment Dealer
George Panos	Executive The Becker Milk Co. Ltd.
Geoffrey W. J. Pottow	Vice-President The Becker Milk Co. Ltd.

Officers

Frank A. Bazos	Chairman of the Board
Robert W. Lowe	President
Robert Bazos	Vice-President
Geoffrey W. J. Pottow	Vice-President
William H. Zimmerman	Secretary
Arvi Magi	Treasurer

Registrar and Transfer Agent

The Royal Trust Company — Toronto and Montreal

Auditors

Langlois, Hauck & Company — Toronto

Solicitors

Zimmerman & Winters — Toronto

Stock Exchange Listing of Class "B" Shares

Toronto Stock Exchange

Head Office

671 Warden Ave. — Scarborough, Ontario, Canada